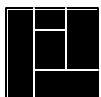


**REPORT ON TRAINING OF
TRAINERS FOR THE
MUNICIPAL CREDIT SEMINAR**

Prepared for
East European Regional Housing Sector Assistance
Project
Project 180-0034
U.S. Agency for International Development,
ENI/EEUD/UDH
Contract No. EPE-C-00-95-001100-00, RFS No. 404



Prepared by
Richard Kezer



THE URBAN INSTITUTE

2100 M Street, NW
Washington, DC 20037
(202) 833-7200
www.urban.org

April 1998
UI Project 06610-404

May 9, 1998

To: George Peterson, The Urban Institute
Michael Lee, USAID

From: Ron Forbes
Dick Kezer

Subject: Training of Trainers sessions, April 27-28, 1998
Seminar on Municipal Credit Analysis, April 29-30, 1998

Training session, Monday April 27

In attendance:

Jitka Pekova, Department of Public Finance, University of Economics,
Prague

Zdena Stankova, Czech-Moravian Guarantee and Development Bank

Zdena Matouskova, Urban Research

Hana Zelenkova, Urban Research

Ron Forbes

Dick Kezer

Lena Adamcova, interpreter

Adela Bahenska, interpreter

Ron Forbes began with a short discussion on the purpose of the training sessions, emphasizing that the object of the training sessions was to make certain that the faculty was thoroughly familiar with the material and in the use of the case studies. He stressed that the US participants would be at the seminar but as observers and to respond to questions but that we were not there to lead, particularly during the break-out sessions when the participants were discussing the case studies and trying to reach conclusions based on the material in the studies.

For our information, we asked questions about the general presentation of the course material: what subjects were to be covered?; by whom?; and, in what order?. We also asked questions about the number of participants, their institutions and general background. The number of participants at this point was 28 (later increased to 29) of which 15 represented Ceskoslovenska Obchodna Banka, A.S. Other participants represented different banks in the MUFIS program-- Agrobanka, IPB, Komerčni, Union, or were from banks not



associated with the MUFIS program--Banka Hana, Commerzbank, Raiffeisenbank, Hypo-bank. Position descriptions most often listed "Credit Officer" or "Credit Analysis". When we arrived at the seminar on Wednesday, we noticed that there was at least one participant who had attended one of the earlier seminars.

Because Ms. Pekova was to deliver the introductory over-view, she ran through her presentation, in summary fashion, of the material she intended to cover on Wednesday morning. She said, and it certainly was true, that her material would confirm and complement the lesson to be learned in the case studies-- i.e. the importance of emphasizing recurring vs. non-recurring revenues and discretionary vs. non-discretionary spending. Ms. Pekova spent 1 hour \pm on her material, which seemed abundant and well organized. We will receive a translated copy of her written background material that was distributed to participants.

We then went to the case studies of Cities A and X. Rather than discuss the issues raised in the case studies, both Ms. Pekova, who was to give the presentation of City A to the combined group of participants and lead one of the breakout groups for City X, and Ms. Stankova, who was to lead the other breakout group for City X, asked that Ron present the details and lessons to be derived for both case studies. Ron spent the next two hours in a careful step-by-step presentation of the material for City A. During this two hours, neither Ms. Pekova nor Ms. Stankova asked many questions but both took many notes. Each had received the case study write-ups in advance.

Because Ms. Pekova had to leave at noon, it was agreed that questions on the material for City A would wait until the following morning.

Training session, Tuesday April 28

The same eight people were in attendance.

- ! There were a few questions on the material for City A. Ron then spent the next two hours presenting the material and objectives of City X. There were very few questions but both presenters took copious notes of Ron's presentation of the material.
- ! Following the presentation of City X, there was a short give-and-take about training and developments in the Czech municipal lending market.



- ! Ms. Pekova suggested that "next time" it would be helpful to look at an analysis of an "investment project"-taken to mean a project constructed from borrowed funds where the only source of repayment was from the revenues generated by the project.
- ! We were told that the plan was to offer this seminar twice a year
- ! Future participants are expected to come largely from the MUFIS banks as more and more employees of those institutions are trained in the fundamentals of municipal lending
- ! Ms. Pekova reviewed the new legislation establishing the "Securities Commission" which has the obligation to approve or disapprove municipal bond issues but based only on the ability of the municipality to repay. This legislation takes away from the MofF the authority to block bond issues by Czech municipalities (more on this subject with the lawyers in the final session of the Seminar)

Seminar session, Wednesday April 29

The schedule for the seminar closely followed the schedule of earlier, 1 1/2 day seminars. After the welcome by Mr. Dvorak of the Banking Institute the morning session was given over to the introductory/overview of municipal finance in the Czech Republic by Ms. Pekova. Due to a late start and the amount of material that Ms. Pekova covered the morning session ran late. This should not be an issue in future seminars. During the debriefing at the close of the day, Ms. Pekova recognized that she tried to cover too much, however concise and well presented, and she will eliminate some of the material in future seminars.

Her presentation of the overview was very professionally done. She is a skilled lecturer with familiar material (she has written two books on the subject of municipal finance and had them available to show the participants) and the participants seemed very interested and were busy taking notes during her lecture.

Following her overview, Ms. Pekova began the presentation of the material for the case study on City A. She covered the Narrative, Exhibits and Work Sheets in a professional way but she seemed less sure of her material and made extensive use of the lecture notes prepared in conjunction with City A and her own notes from the training sessions. She seemed less spontaneous and this



presentation lacked the flair of her earlier lecture. The impression was that Ms. Pekova was much more comfortable and delivered her own material with more panache than was true for City A. This will doubtless be improved over time as she becomes more familiar with the case studies. After an abbreviated lunch break, she finished up the material on City A. Some of the worksheets, particularly those having to do with the Risk Assessment Matrix and Evaluating the Burden of Future Debt Service were mentioned only briefly due to the pressure of passing time.

The participants then split into two working groups to evaluate, discuss and reach a conclusion of a "loan request" from City X. Ms. Stankova had admitted in the training session to being very nervous and suffering from "stage fright". Her conduct of one of the breakout groups was competent but it was apparent she had not given independent thought to the material and did not bring personal insights to the lessons to be learned. Her group convened at 2:30 and the participants were allowed 30 minutes to study the material on City X, complete the unfinished work sheets and reach a conclusion. After the group had done their examination of the material, Ms. Stankova gave a very good summary of a bank's duties and responsibilities to its clients and by 3:15 had led the group using the prepared lecture notes to a conclusion on whether or not to grant the loan. She then asked if the class would like a break. The class said they would rather spend the time discussing the case and it was at that point that the participants began their analysis of the material.

At around 4:00 the two groups re-assembled. The spokesman for Ms. Pekova's group was called on first to present the conclusions of that group. The spokesman for Ms. Stankova's group was called on next. In general we concluded that in the presentation of the case studies the faculty presenters lacked relevant experience and were therefore not able, at this point in their understanding of the case studies, to deviate far from the prepared material.

Because Ms. Pekova was not going to be at the second session, we had a short debriefing at the end of the first day. The most important decisions to come from this discussion were:

- ! The course book should be made available to the participants in advance, but if not thought should be given to starting a 1 1/2 day session with a 1/2 day of introductory lectures on the afternoon of the first day, giving time that night for the participants to look at the material for the case studies. [The Banking Institute reported poor experience in having participants read extensive material before arriving at the seminar site.]



- ! There was nothing immutable about the 1 1/2 day schedule and it certainly would be possible to change the time to 2 days
- ! Adhering rigidly to the schedule is not important but each planned session during the day should start and stop approximately on time and either the material to be covered has to fit roughly into the time allowed or the time allowed has to be expanded.

Seminar session, Thursday April 30

The 1/2 day session started with a presentation of the computer model on municipal financial analysis by Zdena Matoušková. This is a presentation that Ms. Matoušková has made many times in the past and the only twist was that participants are no longer provided with a disc and the book describing the program. Instead, participants were invited to buy the program at a cost of Kc4000, a price that included installation and training on how to work with the model. This presentation lasted about 1 hour. Zdena did an excellent job of presentation. Surprisingly, there were relatively few questions.

Next was Mr. Josef Vaník from MUFIS who gave his talk on the MUFIS program. Judging by the number and variety of questions, this presentation was well received. The questions that we were able to record were on the subjects of interest rate, availability of money in June, the amount of the last borrowing, what is happening to the money repaid from earlier loans, what is the repayment schedule for money borrowed from MUFIS, and the possibility of arbitrage on money the bank receives from MUFIS. Mr. Vaník spoke under conditions that would have tried a lesser man. The next speaker was having technical difficulties preparing his power point presentation and at one point Mr. Vaník had four people right at his elbow and he had to talk over the low hum of their conversation, the switching of cables and periodic flashing of the next speaker's material on the screen.

The next speaker was Michal Kroft of Weinhold & Partners, a member of the Andersen legal network. He apologized for the "technical problems" and said he would refer to the pages in the course book although they would not be as vivid as he had planned. His presentation concentrated on "bonds". He made the following points:

- ! There is no legal definition of a security
- ! Municipalities are exempt from the bankruptcy act



- ! Even if a court orders a municipality to pay money owed, the municipality may refuse to comply and the procedure to force payment is not clear and some mechanism to make municipalities repay loans is needed
- ! Municipalities are legal corporations
- ! Czech legislation is poor on pledging and enforcement of liens
- ! Suggest out-of-court arbitration
- ! Discussed the new legislation creating the Securities Commission.....the law obligates this Commission to give approval of bond issues as long as the issue is properly prepared and not egregiously irresponsible in financial terms
- ! The Commission is not as independent as originally conceived and is a part of the State administration
- ! He named about 10 items (purpose, audited financials etc.) that each potential municipal issuer must provide in order to obtain permission to issue bonds

Tomas Zagar of White & Case then joined the seminar. He was introduced but did not give prepared remarks. Both lawyers were answering questions and the ground covered included:

- The type of legal instrument that a bank would prepare to make a loan to a municipality...
- The current inadequacy of the law on liens...impossible to get hold of collateral without the cooperation of the borrower
- No matter whether the security of the bank is property, receivables or "bills of exchange" the bank will always have to use the court
- Municipalities can form Associations, transfer assets to the Association and the Association can issue debt
- Some discussion about an Association that had been formed to improve municipal infrastructure in the region that was expecting funding from Belgium
- A question on the pledging of future revenues.....which is not clear.....any contract must be absolutely clear in distinguishing between future receivables and those due within one year
- A question on whether it was possible for a District Office to guarantee local debt.....one of the lawyers said that there was a case of this happening but did not know what the outcome was

There were other questions. It seems clear that the level of awareness of the participants of the legal pitfalls in lending has increased substantially over the last several years. The questions indicated an awareness of the issues not seen

in the very early seminars. After the seminar was over, we asked Zagar if his firm would give an opinion to a lender that all the right signatures had been provided by the borrower to assure the legality of the loan document, and he said they would. One point that came across very clearly and that was that a loan is made to a legal entity (the municipality) and not to individuals who happen to represent that municipality at any point in time. This was in response to an earlier comment about succeeding Mayors abrogating commitments made by earlier administrations.

Mr. Josef Janca of the Banking Institute awarded Certificates to the participants following a gracious acknowledgment of the representatives from the US.

Conclusions

The general conclusion was that the participants took a lot of new information away from the seminar. Participants rated the seminar highly--giving it about the same rating as the more recent seminars presented by US experts. The question is what could be done to improve the seminar the next time so that the participants learn even more.

- ! Ms. Pekova did a very fine job on the introductory material and also did a fine job in presenting the introduction for the risk analysis methodology. By her own assessment, this was her first experience with this seminar and in the future she will better pace her material and the time allotted to answering questions.
- ! Ms. Stankova was not comfortable in conducting a breakout group but this is due as much to her general inexperience as the case study method.
- ! Neither is, at this point, able to provide extemporaneous commentary or to provide examples or illustrations to make the lessons more lively. Both did a good job of following the teaching notes. The result was a somewhat "passive" level of participant involvement and discussion in the breakout groups.
- ! Discussion was more animated when discussing legal issues and MUFIS policy, where the presenters were clearly familiar with a wide variety of field experience.



- ! The facilities were less than optimal. The one breakout room was so small it would not hold 1/2 the participants. The main room needs some reconfiguring to be better suited for the use of overheads (the projector was between many of the participants and the screen).
- ! The technical support was inadequate, particularly for Michal Kroft. This could also result from a lack of communication beforehand as to a particular speaker's needs.
- ! The faculty should decide whether to start the seminar with a 1/2 day session on the afternoon of the first day. This day would end with the introduction of the methodology and the assignment of the case studies for the beginning of the second day.
- ! Mr. Janca told us that this course would be presented again in the Fall. He said there would be a companion course for local officials. If the course for local official is not to be identical, who will be doing the work on the course material and how will it differ from the course given to the bankers?
- ! There is plenty of common sense evidence that the bankers are ready for an advanced seminar. This could be more advanced methodology of municipal credit analysis coupled with case studies that use much more detail information than in the present case studies. Preparation should begin on this as soon as possible.

EVALUATION ON MUNICIPAL CREDIT SEMINAR

PRAGUE - April 29-30, 1997

Number of participants: 29
 Number of banks: 9
 Number of returned questioners: 26

Question:	Evaluation in %			
	Excellent	Good	Satisfactory	Poor
1. How would you rate effectiveness of the general session?				
a) Introduction to Municipal Finance	50	42	8	0
b) Municipal Credit Risk Assessment	35	61	4	0
c) Credit Finance Model	31	54	11	4
d) Information on MUFIS	25	58	13	4
e) Legal Issues on Municipal Credit	25	62	13	0
Question:	Evaluation in %			
	Excellent	Good	Satisfactory	Poor
2. How effective did you find the case studies format of the seminar?	38	58	4	0
Question:	Comments:			

3. Would you suggest an alternative format for future seminars? Please be specific.

- Less lectures and more discussions with municipal officials.
- Use model for city A and city X in case studies.
- Invite participants or presenters from municipalities and share experience with them.

Question:	Yes	No	Comments:
4. Should this subject be covered again in more depth?	46	54	<ul style="list-style-type: none"> - More specific problems. - Repeat the seminar for other and new banks`staff.

Question:	Comments:		
5. What other topics would you suggest for future seminars?	<ul style="list-style-type: none"> - More practical examples than theory. - PHARE program. - More good and bad case studies. - More information on municipal accounting structure. - Include discussion on municipal balance sheet. - More details on municipal credit risk assessment. 		

Question:	Yes	No	Comments:
6. Would you prefer one day seminar?	8	92	
	Evaluation in %		

Question:

	Excellent	Good	Satisfactory	Poor
7. How would you rate appropriateness of the seminar place?	42	58	0	0
Question:	Comments:			
8. What other comments would you like to make?	<ul style="list-style-type: none"> - Invite a representative from the Ministry of Finance for discussion. - Invite representatives from municipalities for discussion. - Devote more time for Credit Finance Model. 			